

EXTENSIONS OF REMARKS

RURAL ROADS FUNDING

HON. NANCY L. JOHNSON

OF CONNECTICUT

IN THE HOUSE OF REPRESENTATIVES

Tuesday, March 26, 1996

Mrs. JOHNSON of Connecticut. Mr. Speaker, anticipating next year's reauthorization of the 1991 Intermodal Surface Transportation Efficiency Act [ISTEA], I am introducing legislation today that will provide rural area roads eligibility for a small percentage of funding under the Surface Transportation Program [STP].

The intent of ISTEA's STP program was to provide greater flexibility to State and local authorities for transportation needs by providing States with block grant-type authority. However, ISTEA regulations prohibit roads classified as local or rural minor collectors from receiving Federal-aid highway funding. Since most roads in rural areas fall under this classification, they are not eligible for funding and remain in severe disrepair.

Under ISTEA's current STP distribution formula, States are required to set aside 10 percent of their STP funds for safety programs and 10 percent for transportation enhancement programs. The remaining 80 percent of STP funding goes into a general purposes fund, with a remaining distribution account receiving 50 percent, and a statewide distribution account receiving 30 percent.

Under the remaining distribution account, funding is provided to areas over 200,000 population, while only a minimal level of funding is provided to rural areas under 5,000 population based on a fiscal year 1991 funding level. Unfortunately, congressional attempts to provide State flexibility do not ensure adequate and equitable distribution of Federal assistance to rural area roads.

Moreover, roads functionally classified as local or rural minor collectors are not currently eligible for the rural areas under 5,000 population funding and, since most rural roads fall under these two classifications, they are ineligible for Federal assistance.

My legislation would allow roads functionally classified as local or rural minor collectors eligibility for STP funds under the existing special account for areas under 5,000 population only. My legislation would not amend the road classification system. Rather, it would only modify 23 USC 133(c) to allow roads functionally classified as local and rural minor collectors STP funding eligibility under the areas under 5,000 population account 23 USC 133(d)(3)(B). Moreover, I propose that of the 50 percent to be obligated under the remaining distribution account, at least 20 percent, or the existing minimum requirement, whichever is greater, should go to the rural areas under 5,000 population account. Finally, my legislation would amend the statewide planning process by requiring States to also consider the transportation needs of rural areas, including local and rural minor collectors.

I urge my colleagues to support this necessary legislation. It will provide the flexibility

ISTEA was intended to produce and will greatly improve our roadway system by allowing local and rural communities the opportunity to decide which roads should be repaired.

MEDICAL SAVINGS ACCOUNTS: FANCY WORDS FOR NEW TAX SHELTER

HON. FORTNEY PETE STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, March 26, 1996

Mr. STARK. Mr. Speaker, medical savings accounts [MSA] will be voted on this week as part of the health insurance reform bill developed by the Republican leadership.

The MSA provisions should be deleted.

Everyone who thinks about them will quickly understand that they are destructive to the health insurance system, because they skim out the healthiest people in our society. Sicker and older people will be left behind in the traditional insurance pool, where rates will have to be raised to cover the costs of the more expensive people in that pool. These higher rates will, in turn, make insurance unaffordable to more people, thus increasing the number of uninsured in our society. MSA's may be good for individuals who are healthy at the present time, but they are bad for society that is trying to encourage health insurance for as many people as possible.

MSA's are an every-man-for-himself, to-hell-with-society philosophy.

What is not so clear is that they are a massive tax shelter.

I would like to include in the RECORD the portions of a paper by Iris J. Lav of the Center on Budget and Policy Priorities, which details how gross this new tax break is. Republicans talk about tax reform and tax simplification, but anyone who votes for MSA's is voting for tax complication and tax unfairness:

MSA PROVISIONS IN HEALTH CARE REFORM BILL CREATES TAX SHELTER AND CASTS DOUBT ON EXPANSION OF INSURANCE COVERAGE

(By Iris J. Lav)

The Medical Savings Account (MSA) provision in the House health care reform bill creates an extensive new tax shelter opportunity, the cost of which would grow over time. For people in good health, the MSA provision would be the equivalent of enacting a new Individual Retirement Account program—far more generous than the IRAs available prior to the Tax Reform Act of 1986.

Healthy, higher-income people who hope to retain for other purposes the tax-advantaged funds not needed for medical care would be attracted to use the MSAs with high-deductible insurance plans. People with less good health would find high deductible insurance plans less attractive and would become segregated into conventional insurance plan, thereby raising the cost of such plans. As a result, it could become more difficult and less affordable for employers to offer adequate health insurance to employees most in

need of it—potentially undermining the basic purpose of the health care reform legislation.

The potential problems caused by MSAs can be mitigated (but not eliminated) by limiting the ability of healthier people to use MSAs as a tax shelter for general purpose saving and investment. The tax shelter potential could be lessened by:

Significantly increasing the penalty for use of MSA funds for purposes other than paying medical bills.

Taxing interest earned on MSA accounts annually.

Recapturing foregone FICA (Social Security and Medicare) payroll taxes for amounts withdrawn from MSAs for purposes other than paying medical bills.

Raising the age at which funds may be withdrawn from MSAs for any purpose without incurring a penalty to age 65, so funds must remain available to expend on medical care until the individual qualifies for Medicare.

MSA PROVISIONS

Under the MSA proposal in the health care reform bill, qualified taxpayers (either directly or through their employers) are allowed to contribute yearly amounts to an MSA, up to a specified ceiling. To be qualified, taxpayers must have insurance coverage through a high-deductible health plan. Taxpayer (or their employers) may contribute the amount of the plan deductible of the MSA, up to \$2,000 for an individual and \$4,000 for a family.

Amounts individuals contribute to MSAs may be deducted on their income tax when determining adjusted gross income, which means they may be deducted whether or not the individual itemizes other deductions. If MSA contributions are made by employers on behalf of individuals (presumably even if salaries are reduced to allow the contributions to be made), the amounts contributed are not counted as wages or salary for purposes of computing income, FICA (Social Security and Medicare), or unemployment taxes. The interest earned on amounts accumulated in MSA accounts also is exempt from taxation.

Taxpayers may use the funds in their MSAs to pay any medical expenses that could qualify as itemized deductions on the taxpayers' income tax. Funds withdrawn from MSAs that are used to pay permitted types of medical bills are never taxed.

If funds are withdrawn from the MSA for non-permissible purposes, they are subject to income taxes as ordinary income in the year they are withdrawn. If the taxpayer is below age 59½, amounts withdrawn for non-permissible purposes also are subject to a 10 percent penalty. After the taxpayer attains age 59½, funds may be withdrawn from MSAs for any purpose without incurring a penalty.

MSA'S CREATE A TAX SHELTER

For higher-income taxpayers who anticipate remaining healthy, MSAs represent a new, tax-advantaged way to accumulate savings. Because contributions made by or through an employer are permanently exempt from Social Security and Medicare payroll taxes and are exempt from income taxes until withdrawn, and because the interest earned on amounts remaining in the MSA is allowed to compound without yearly taxation, the 10 percent penalty on withdrawals for non-permissible purposes is not

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